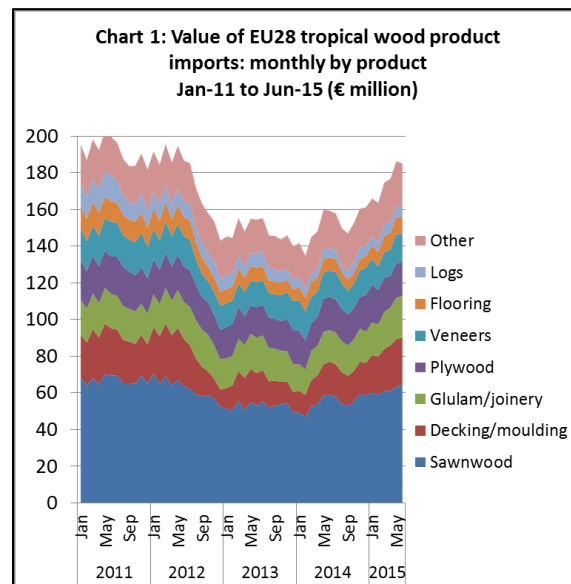


Recovery in EU tropical wood imports

The rising trend in EU tropical wood product imports that began in September 2014 continued into the second quarter of 2015. EU imports of tropical wood products in May 2015 hit €186 million, the highest monthly figure since June 2012 (Chart 1). Overall in the first 6 months of 2015, the EU imported €1.07 billion of tropical wood products, an increase of 19% compared to the same period the previous year.



Source: FII Ltd analysis of Eurostat

The strong growth in the value of EU imports this year should be set against the background of particularly low levels of import in 2014. The weakness of the euro on currency exchange values also means that the value of imports has risen more rapidly than quantity (since the euro price of imported products tends to be higher).

It is too early to tell whether the recent growth in imports is the beginning of a lasting recovery or driven mainly by stock replenishment as importers take advantage of better availability. The supply situation for tropical timber in Africa, which was difficult throughout 2014, has improved this year from European buyers' perspective. Although China continues to consume large quantities of African timber, demand in China has eased creating a better balance between supply and demand for European importers.

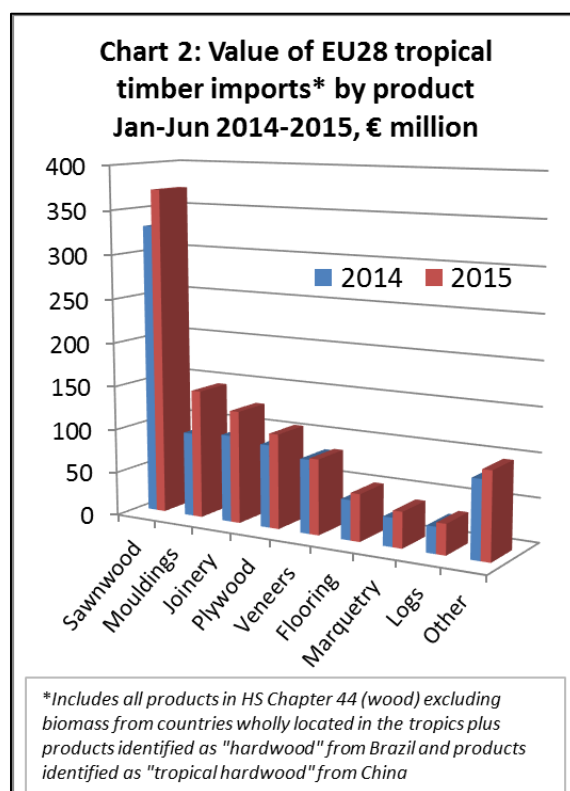
A positive trend on the consumption side in Europe is continued good construction activity in Germany, Europe's largest economy, and on-going recovery in construction in the Netherlands, UK, Spain and Eastern Europe. European furniture production is also improving, with rising activity in Sweden and UK and strong growth in Poland, Lithuania and several other Eastern European countries. This, together with continuing stability in

Germany's large furniture manufacturing sector, is offsetting historically low levels of furniture production in Italy, Spain and France.

A particularly encouraging sign this year is that the growth in EU imports of tropical wood is occurring despite continuing weakness of the euro-exchange rate which, other things being equal, makes imported products less price competitive in the euro-zone. The growth trend has benefitted suppliers irrespective of whether they typically invoice in euros or dollars – hinting that this may be driven more by improving EU consumption than by short-term stock replenishment.

Imports rise across most tropical wood sectors

The growth also extends to a wide range of products and market sectors. EU imports of nearly all tropical product types have increased significantly in the first half of 2015 compared to the same period in 2014 (Chart 2).



Source: FII Ltd analysis of Eurostat

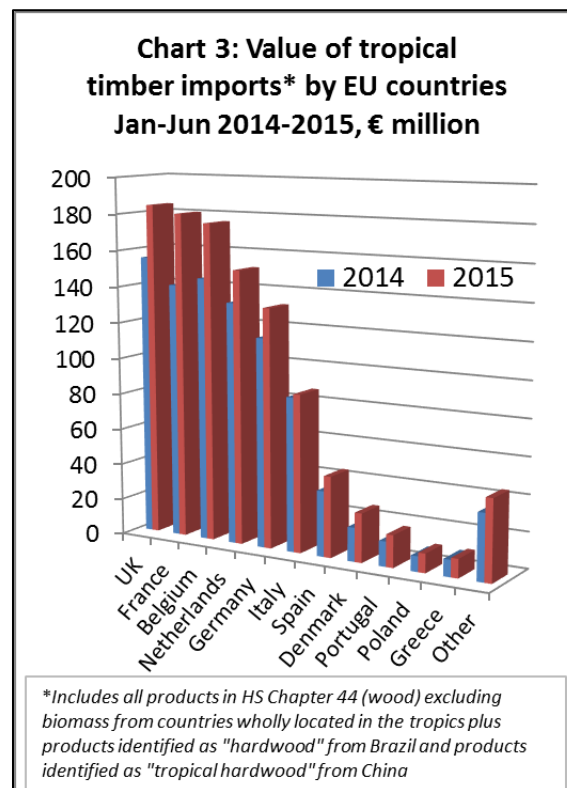
EU imports of tropical sawnwood were €371 million in the first half of 2015, 13% more than the same period in 2014. Imports of tropical mouldings (including both decking and interior mouldings) increased 52% to €146 million. EU tropical plywood imports were 14%

greater at €108 million. Imports of tropical joinery products (mostly LVL for window frames) increased 29% to €128 million, while tropical flooring products increased 18% to €53 million.

EU tropical log imports jumped 16% to €35 million in the first six months of 2015, the first turnaround after several years of continuous decline. The first very tentative signs of improvement are also evident in the EU tropical veneer trade. Imports were €86 million in the first half of 2015, 2.2% up compared to the same period in 2014.

Key tropical timber markets are bouncing back

There was significant growth in the euro value of tropical timber imports in nearly all the main EU markets in the first half of 2015 (Chart 3).



Source: FII Ltd analysis of Eurostat

The UK was the largest EU destination for tropical wood products in the first half of 2015, although this position is now threatened as France and Belgium are now bouncing back more rapidly. UK imports of tropical timber products were valued at €184.4 million in the first half of 2015, 19% more than the same period in 2014. During the same period, imports increased 28% to €180.2 million in France and 21% to €175.8 million in Belgium.

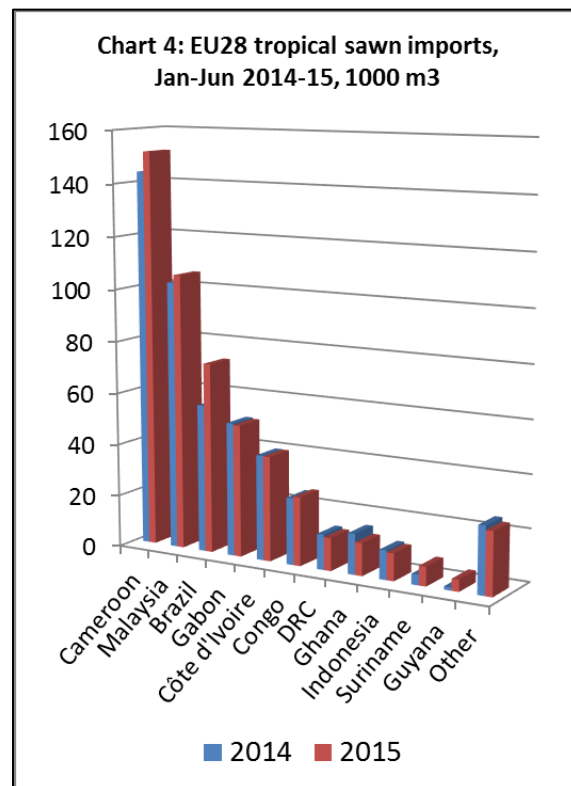
Amongst other western European markets for tropical wood products, only Italy and Sweden have been disappointing this year. In the first half of 2015, Italy's imports of tropical wood products were €87.1 million, only 2% above the historically low levels recorded in 2014. Imports by Sweden were €10.1 million in the same period, 5% below last year's level.

Other western European markets for tropical wood are gaining ground. In the first half of 2015, there was significant growth in imports by the Netherlands (+13% to €151.3 million), Germany (+14% to €132.1 million), Spain (+23% to €44.6 million), Denmark (+44% to €26.9 million), Portugal (+29% to €17.8 million), Greece (+12% to €10.4 million), and Ireland (+42% to €9.4 million).

Imports of tropical wood products into several Eastern European countries also increased in the first half of 2015 notably Poland (+24% to €10.5 million), Romania (+26% to €10.5 million) and the Czech Republic (+72% to €3.8 million).

10% growth in EU tropical sawn hardwood imports

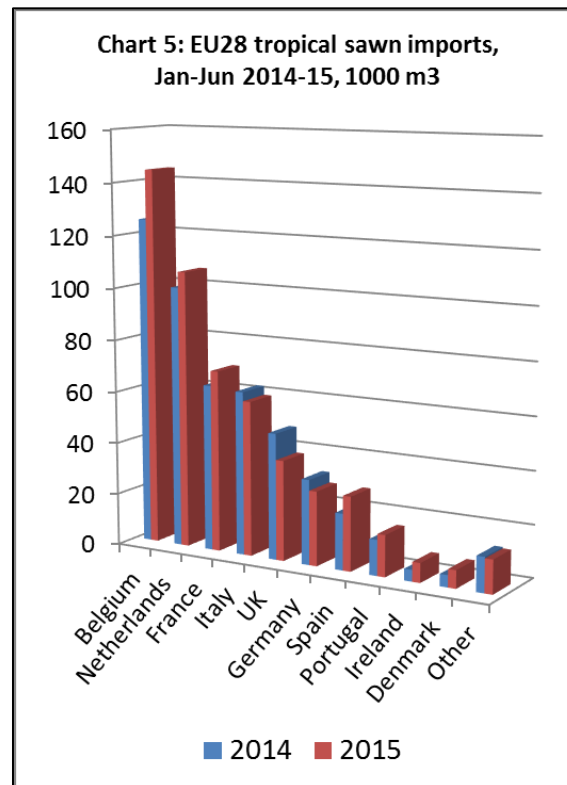
The EU imported 519,000 m³ of tropical sawn hardwood in the first half of 2015, 6% more than the same period in 2014. The rise was broadly based being recorded across a wide range of supply countries (Chart 4).



Source: FII Ltd analysis of Eurostat

In the first half of 2015, EU imports of tropical sawn timber increased from Cameroon (+5% to 151,700 m³), Malaysia (+3% to 105,700 m³), Brazil (+29% to 72,900 m³), Republic of the Congo (+3% to 26,300 m³), Suriname (+85% to 7,400 m³) and Guyana (+258% to 4,500 m³). Imports from Gabon (50,700 m³) and Ivory Coast (40,100 m³) were the same as the previous year. However imports declined from DRC (-7% to 12,600 m³) and Ghana (-20% to 12,500 m³).

On the recipients' side, in the first half of 2015, imports of tropical sawn hardwood increased into Belgium (+15% to 144,500 m³), the Netherlands (+6% to 106,500 m³), France (+9% to 69,700 m³), Spain (+32% to 28,400 m³), Portugal (+17% to 15,900 m³), Ireland (+68% to 7,500 m³) and Denmark (+50% to 6,900 m³). However imports declined in the first half of 2015 into Italy (-5% to 59,400 m³), the UK (-21% to 38,500 m³) and Germany (-12% to 28,500 m³) (Chart 5). Imports into Italy and Germany picked up a little in the second quarter of 2015 after a slow start to the year. In contrast, imports by the UK were good in the first quarter of 2015 but slowed dramatically in the second quarter.

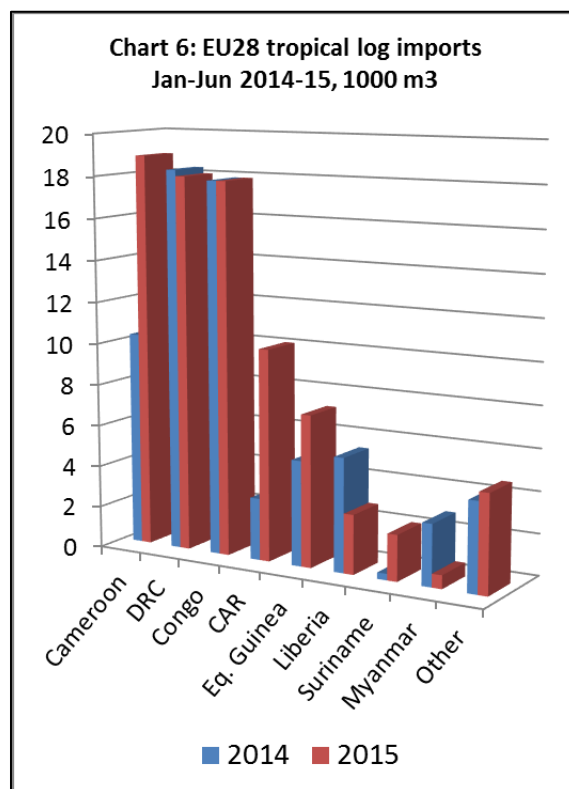


Source: FII Ltd analysis of Eurostat

Turnaround in tropical log imports

After roughly ten years of almost uninterrupted decline, EU tropical log imports increased 22% to 82,679 m³ in the first half of 2015. Much of this growth was due to an 84% increase in imports from Cameroon to 18,912 m³. The scale of the increase is partly due to the particularly low level of imports from Cameroon in the first half of 2014 when trade was seriously disrupted by logistical problems at Douala port. There was also a surge in imports in the first half of 2015 from the Central African Republic (+241% to 10,152 m³) and Suriname (+621% to 2,212 m³).

In the first half of 2015, EU tropical log imports from the DRC (18,016 m³) and Republic of Congo (17,883 m³) were nearly stable compared to the previous year. Imports from Liberia were down 48% at 2,851 m³ in the first half of 2015, with nearly all this volume arriving in the first three months of the year. Although Myanmar implemented a log export ban from 31 March 2014, Eurostat statistics indicate the EU imported 649 m³ of logs from the country in the first 6 months of 2015, 78% less than the same period in 2014 (Chart 6).



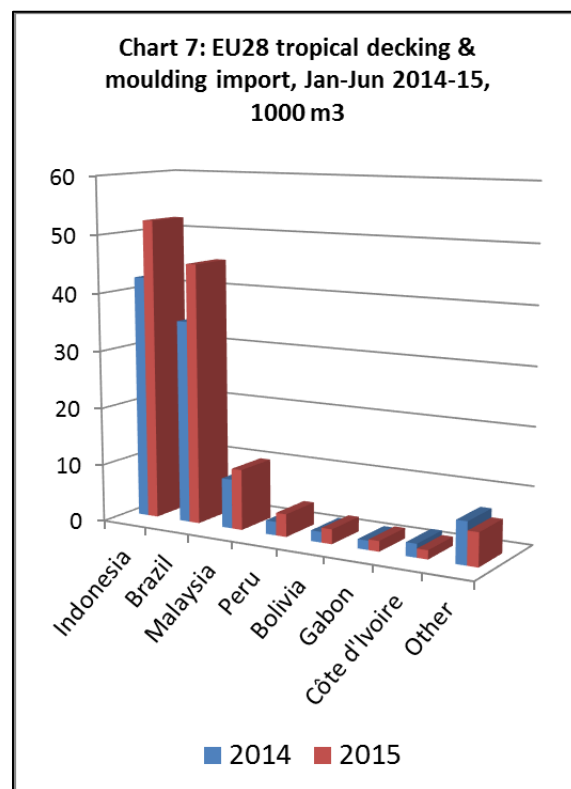
Source: FII Ltd analysis of Eurostat

Sharp rise in imports of decking and mouldings

EU imports of “continuously shaped” wood (HS code 4409), which includes both decking products and interior decorative products like moulded skirting and beading, were 123,436

m3 in the first half of 2015, up 22% compared to the same period in 2014. This increase was primarily attributable to much higher deliveries from the two main suppliers, Indonesia and Brazil (Chart 7). Imports from Indonesia increased 24% to 52,187 m3. Indonesia has profited from the better demand in the Netherlands and Germany, traditionally major markets for Indonesian decking.

Meanwhile EU imports from Brazil were up 28% at 45,142 m3, with a particularly significant increase in imports by Belgium and France. Imports of Brazilian decking were constrained last year after a Greenpeace campaign raising concerns about the legitimacy of documentation to demonstrate legal origin of Brazilian tropical timbers. This encouraged suspension of sales of Brazilian decking products by several large European merchants and blockage of shipments while Belgium’s Environment Ministry undertook EUTR-related investigations. These subsequently confirmed the legality of the shipments which were cleared for entry. The trade data confirms that EU imports of Brazilian decking products were flowing more freely during the first half of 2015.



Source: FII Ltd analysis of Eurostat

Drilling down into due diligence

The Global Timber Forum (GTF) has published an international Supplier and Consumer Due Diligence Analysis which assesses how well “companies understand the concept of “due diligence” as it is defined in the EU Timber Regulation (EUTR), and to assess how far they have been able to put it into practice.

Under report author George White, a team of interviewers issued a questionnaire to 27 EU ‘operator’ importers, which have to undertake due diligence illegality risk assessment of all suppliers under the EUTR. They also quizzed 15 supplier companies (all in tropical countries), which today face a mass of due diligence documentation and inquiries from customers EU-wide.

Critically, they focused on small to medium sized enterprises, which not only comprise a large part of the timber sector, but may find due diligence more of a burden as they have fewer resources to devote to it.

Among aspects the questions probed were:

- whether companies properly understood what was expected of them in terms of due diligence
- how much time, money and people they devoted to it
- whether they used external due diligence support and guidance
- how EU companies viewed the performance of Competent Authorities, responsible for monitoring and policing the EUTR in each EU country

Key conclusions included that most companies had a good understanding of their due diligence obligations, but the knowledge of some was seriously deficient. The report also ranks due diligence understanding and performance of EU company participants by country.

The GTF found that bigger businesses generally had more comprehensive due diligence policies, but smaller companies can also perform well. Those that used external support also had more robust systems and, interestingly, supplier country companies tended to put relatively more money and time into due diligence than their EU customers.

This last conclusion may go some way to explaining why, as implied by the recent revival in EU imports, European buyers now seem sufficiently confident of the legality assurances provided by suppliers to increase purchases of tropical timber products.

The report is available from the GTF website at:

<http://gtf-info.com/uploads/documents/gtf-supplier-and-consumer-due-diligence-analysis.pdf>

